

We are here to talk today primarily about growth and the reasons for Soviet growth. It was well put by Dr. Herbert Stein, who said the Russians did not have any particular secret. It is obvious to them, as it is to us, that if you put in the investment -- you get the growth. Very simply, they are investing now at the rate of approximately 30 per cent of their gross national product; and that is rising, according to their schedule under their seven-year plan to close to 35 per cent.

I do not know what our own figures are now, but they are in the order of 17 to 20 per cent, depending on what year or group of years you take.

In the success of their drive to overtake and surpass the United States' production Soviet leaders are convinced that they hold the key to the final victory of Communism. Despite what we hear in some of the speeches that are made to keep up the morale of their troops, so to speak, *most responsible observers do not* [none of the people in responsible positions in government] believe that they currently plan, or are likely in the foreseeable future to plan, world conquest by military means.

- 3 -

What they think they are going to do is just to beat us down the pike of industrial production. In non-ideological terms their fundamental belief is that the managing of the kind of society that any industrially advanced nation has in the late 20th Century is just too complicated and requires too much scientific management to be run from the bottom up. It just can't, in their opinion, be run from the ballot box and super-market basket.

At present the Soviet Union is operating under a seven-year plan which blueprints industrial development through 1965. It would appear not only that these goals which they have set are going to be met but -- according to the figures they have put out, ~~and our own best analysis of the situation~~ -- they are now ahead of the game. They have recently announced they are going to complete the seven-year plan in six.

I do not necessarily subscribe to that particular statement yet, but it ^{does appear} ~~[shows]~~ that they are ahead, ^{7 schedule} At the same time ^I agree with the ~~SED team's~~ observations ~~[made this morning]~~ that the Soviets have not met with complete success in their search for investment efficiency. There is very real doubt, for example, whether the Soviet Union has been putting into place as much industrial capacity as would be necessary if the same amount of investment effort had been made and spent in the United States. ^{result} ~~on~~ ^{There are several reasons for this. First, of course, the war and its aftermath. Then, there is the fact that} ~~equipment and put in place in the United States. This, of course, is because in the past there were wars and their incentives went largely~~ for physical bulk of production in pursuing the bonus system.

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- 3 -

also, then are
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who seek
the part of plant managers to get away from the inefficiencies that
result when their supply chain breaks down.

More than half of their metal-cutting machinery not on direct production lines exists in the repair shops and as standby units in all kinds of industrial plants. If a fellow runs short of hexagonal three-eighths-inch screws he just goes to the machinist and has one made. Nothing could be more inefficient than that. That is one of the things they pay for.

At the same time they are, as I say, very much aware of this inefficiency and related ones, and are making very definite steps to correct it.

For example, the bonus arrangement is now much more based, if not entirely, on achieving production cost reductions rather than on pure quantity production.

Secondly, individual enterprises have been relieved of all experimental costs which now are paid for by a centralized fund. And this is believed both to stimulate and to reduce the cost of new equipment. Especially large bonuses are now available to all plant personnel directly concerned with the creation and introduction of new technology. Some aspersion was cast on this this morning, but *as I am inclined to* believe that this is by and large a good tool of the incentive method because not only does the person get a bonus for introducing the change in his own plant, but a central body computes the savings that will come throughout the economy by the adoption of his particular new technique, and he gets rewarded accordingly.

- 4 -

Finally, this year the central committee has assigned to the State Committee for Automation and Machine Building the task of creating, in fifty to sixty selected plants, model experimental super-showplaces, which are designed to be both a sinecure and to set the pace.

I would like to close with a few thoughts about the long haul, the year beyond 1965. As ^{the} prospect for early fulfillment of the seven-year plan ^{has improved,} for improvement the USSR has shortened the time horizontally it believes necessary to overtake us in the industrial race. Just last month the Tass announced that the USSR will surpass the United States in overall industrial production by 1967-68, whereas the previous target was 1970. This semi-absurd prediction is based on assumptions only partly true or obviously false; namely, the Soviet Industrial output is now 60 per cent of that of the United States. This computation does not take adequate account of the durable consumer goods and other items, ^{I + would be more accurate} and we would ^{to} compute it ^{as has been said by others this morning} at nearly 40 per cent currently of ours.

The rate of growth they project for themselves, and whatever base they jump off from, is 11 per cent. ^{However, I believe that within the} computation is more carefully analyzed and placed on ^{is an attempt to adjust it to a basis consistent with our own Federal Reserve Board Index of Industrial Production, we have concluded that 8.5} ^{it would be closer to the mark to put} ^{the rate at} to 9 per cent would be close to the mark.

As far as our own growth rates are concerned, these are, of course, none of CIA's business, but it all depends on what years you select to determine the basic slope. The Russians for their own convenience, but with a certain amount of logic, have selected the seven years from 1953

- 5 -

to 1959 inclusive and have given us a 2.4 per cent per annum growth rate. If we correct the data on the first point, and if we use our own best judgment of the Soviets' future rate, say, 9 per cent, and then assume that the U.S. will continue at the '53 to '59 rate, then the lines would cross in 1973.

The USSR is exaggerating by perhaps a decade its prospects in the economic race with the United States. But this fact should not blind us to the firmly held faith of the present leadership in their ability to achieve economic supremacy in what to them is, of course, a very short historic period of time.

There are obvious possibilities, I should mention, for the slowdown of the Soviet growth rate. All through the 1950's skeptics have been looking for such developments in vain. In view of the political power of their leadership and the dedication to invest in the incentive economy, it would in my opinion be imprudent in the extreme to anticipate any material decline in the growth rate as an inherent part of the increasing size of their economy.

If by any reasonable standard the USSR will have reached by the 1970's a mature economy, ^{one can} wonder then with W. W. Rostow and others whether they will put this to work for their consumers, whether they will put it into military buildup and adventurism, or whether they will go out on such a massive scale of aid to underdeveloped countries as the world has never seen. That is ^a ~~the~~ possibility, ^{and it is} ~~really something to consider urgently.~~
~~The latter indeterminate is the thing that worries me the most.~~

~~Given a four or five hundred billion dollar economy, the political drive for the underdeveloped world, we can well see them organizing something in the~~

- 6 -

order of \$10 billion a year for the export of the kind of cheap machines and tools that George Terborgh mentions elsewhere and other comparable construction and producers' items.

The important thing, it seems to me, ^{is} that you have to recognize ^{on the choices they make.} is that we can have in this country some effect maybe on their drive. If by stepping up our growth a bit we can postpone the point of crossing of these lines into the late '80s or maybe the turn of the century, then maybe the few people, and there are some respectable people in Moscow, calling for more now rather than having everything go into the investment bucket will be heard. And so the race depends just as much on what goes on in New York, Pittsburgh and Washington as it does on what goes on in Moscow.

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